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SUBJECT: CHEVRONTEXACO: SEIZING THE DAY

REF: CARACAS 2564

Classified By: Economic Counselor Richard Sanders; for reasons 1.4 (b) and (d)

SUMMARY

11. (C) ChevronTexaco is pushing to expand its business opportunities in Venezuela. The company received the formal license for Block 3 of the off-shore Deltana Platform project at an August 6 ceremony marking the opening of exploratory drilling in Block 2 (see reftel). At that time, ChevronTexaco Vice President for Latin America Upstream Ali Moshiri confirmed rumors that the company has proposed a new \$6 billion heavy oil project to the GOV. Moshiri subsequently told econoff he hopes to sign an MOU on this project in October. The heavy crude upgrader of the Hamaca project, in which CTX has a 30 percent stake, is expected to come on-line in September while Moshiri told econoff that the project has also proposed to the GOV that it increase field production in order to provide the GOV with an additional 100,000 b/d of extra heavy crude. This crude would be sold directly to PDVSA and would not go through the upgrader. Finally, the company is expected to consider bidding on 10 new off-shore exploratory blocks now expected to be opened the week of August 16. End Summary.

CHEVRONTEXACO LEADING THE WAY

12. (U) ChevronTexaco (CTX) is aggressively developing its business in Venezuela. The company currently operates the Boscan and LL-652 oil fields in western Venezuela. It has a 30 percent share in the Hamaca project, the fourth and last of the so-called Strategic Association joint ventures that upgrade the crude of the Orinoco heavy oil belt. It is working to advance the proposal recently inked by Chavez and Colombian President Uribe to construct a gas pipeline between Venezuela and Colombia and is pushing ahead with other projects related to off-shore natural gas development and extra heavy crude.

OLD GAS PROJECTS...

13. (C) As reported in reftel, ChevronTexaco Vice President for Latin American Upstream Ali Moshiri participated in an August 6 ceremony to mark the opening of drilling in Block 2 of the off-shore Deltana Platform natural gas project. Moshiri was also particularly pleased to receive the formal license for Block 3 in the same ceremony - in advance of the August 15 referendum on Chavez's tenure in office. Although Block 3 had supposedly been awarded to CTX on March 8 in a similar public ceremony, the company had not yet received the actual license. Moshiri informed econoff that the license had been held up by a GOV attempt to change its terms and conditions. According to Moshiri, Bernard Mommer, a leftist economist now working out of PDVSA's London office who is credited with being the intellectual author of the 2001 Hydrocarbons Law and more recently with having killed off Venezuela's orimulsion business (a branded mix of water and extra heavy crude used for boiler fuel), had been behind an attempt to change the license format. Moshiri said he had fought back and eventually received a license with the original terms. (Note: Blocks 1 and 5 of the Deltana Platform project are still unassigned. Although the GOV has been in direct discussions on Block 1 with BP because it operates a contiguous block in Trinidad & Tobago waters, Minister of Energy and Mines Ramirez responded that the block would be reserved for PDVSA when questioned directly by President Chavez during the August 6 ceremony. The Minister also said that the deep water Block 5 would be reserved for a later date. An ExxonMobil manager, whose company was popularly believed to be a shoo-in for Block 5 in the first Deltana Platform bid round in which it declined to participate, recently described the block to econoff as "a dog." End Note.)

14. (U) Operating in 600 meters of water in the Atlantic, a GlobalSantaFe Corporation semisubmersible rig began drilling the Loran 2X well, the first of three exploratory wells now planned for Block 2, over the weekend of August 7-8. CTX expects it will take 55 days to drill this first well; the company has said it will release the results in about 65 days. In his remarks at the August 6 ceremony, Moshiri pledged that the company will continue drilling until it completes its three-well minimum work program requirement in early 2005, a year in advance. But Moshiri further expanded on this pledge, saying the Block 2 consortium "is committed to expediting Plataforma Deltana so it can be the first Venezuela LNG project." According to Moshiri, an LNG project usually takes six years from gas discovery to first shipment. He said he believed the project could beat this record (always assuming it has enough commercial gas) and bring the first Venezuelan LNG to market in 2009/10. This statement was a direct challenge to Shell and Mitsubishi which are still negotiating the license for the Mariscal Sucre gas project. This project had been expected to develop Venezuela's first LNG train.

AND NEW GAS PROJECTS

15. (C) Although we (and the industry) had expected the GOV to open the bidding on 10 new off-shore exploration blocks off Falcon state and in the Gulf of Venezuela before August 15 as part of the GOV's pre-referendum "spin," Vice Minister for Hydrocarbons Vierma told econoff August 10 that the blocks will be bid the week of August 16. Vierma added that 23 companies have expressed interest in participating in the bid process and five more may yet buy data packets. However, said Vierma, in the end he expects that the companies most interested will be ChevronTexaco, ExxonMobil, and Total. We can confirm CTX's interest, particularly given the location of these blocks near Maracaibo, the traditional center of the company's Venezuelan operations.

MOSHIRI CREATES A STIR WITH CONFIRMATION OF HEAVY OIL PROPOSAL

16. (C) Moshiri also confirmed rumors on August 6 that CTX has tabled a new project proposal for Venezuela's Orinoco heavy oil belt. According to his announcement, the project would include exploration and production, a new pipeline and an upgrader to produce 200,000-400,000 b/d of high-quality synthetic crude and products. Moshiri underlined that the project would be signed under the terms of Venezuela's 2001 Hydrocarbons Law. In a subsequent August 6 conversation, Moshiri told econoff he had made a public announcement because French major Total (among others) is also in discussions with the GOV. Moshiri said he believed a public announcement might inject some transparency into the process. (In fact, Vice Minister for Hydrocarbons Luis Vierma told econoff August 10 that Shell, spurred by CTX's example, had submitted its own proposal over the weekend.) Moshiri added that he hopes to sign an MOU with the GOV on the new project in October. (Note: On August 10, Vice Minister Vierma told econoff that a proposal suggesting that the extra heavy oil belt be divided into 12 blocks for a new licensing round has been given to PDVSA President Ali Rodriguez.)

18. (C) With respect to the Hamaca project, CTX's current extra heavy crude investment, Moshiri confirmed that the upgrader is on track to come on line in September. He concurred that recent press reports that the Hamaca project is paying a 30 percent royalty to the GOV on its production are inaccurate. (Note: The Hamaca project inked a deal with the GOV in April to increase its early oil production from 80,000 to 120,000 b/d. The 30 percent royalty has been levied on that increased early oil. Once the 180,000 b/d upgrader comes on line, Hamaca project field production will increase to about 190,000 b/d under the existing contract and the company will pay a 1 percent royalty for nine years or until it has re-couped some multiple of its original investment, whichever comes first.) Most significantly, Moshiri also confirmed to econoff that the Hamaca project has proposed to the GOV that it increase field production in order to provide the GOV with an additional 100,000 b/d of

extra heavy crude. This crude would not be upgraded but would instead be sold directly by PDVSA as a blend crude such as Merey.

COMMENT

19. (C) ChevronTexaco's Moshiri may be raising the hackles of some of his colleagues (challenging Shell for instance) but there is no doubt of his success in dealing with the GOV. Part of this success lies in the company's heavy involvement

in the Deltana Platform project that has been largely conceived and brought to fruition by the Chavez government. Moshiri's pledge to do an extra heavy crude project under the provisions of the Hydrocarbons Law would also be very well received by this government. It is clear that ChevronTexaco has calculated that it may well be dealing with the Chavez government for some time to come and that, if it wants to pursue a long-term expansion strategy in Venezuela, it must come to an agreement with this government. Other companies have done the same but ChevronTexaco has been more public about it.

10. (C) The flip side of this is that if the opposition wins the referendum on August 15 and a subsequent election, CTX could be a target. There are those in the opposition, particularly from the ranks of the ex-PDVSA employees, who still feel rancor against foreign companies which they believe contributed in some way to the failure of the December 2002-February 2003 oil strike by helping PDVSA to get production going. The bid processes for Deltana Platform project blocks were a particular target for allegations of sweetheart deals by the opposition. Although Moshiri throughout has emphasized the transparent nature of the process in which the company participated (and we agree), it is possible that a new government might review agreements with a critical eye.
Shapiro

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